



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 4/3/2006

GAIN Report Number: CE6002

Sri Lanka

Grain and Feed

Annual

2006

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Report Highlights:

Sri Lanka's MY 2006/07 (Oct - Sep) rice production is forecast at 2.2 million tons, assuming favorable weather and political conditions. MY 2005/06 rice production is estimated at 2.1 million tons. Wheat imports in CY 2006 are estimated at 1 million tons. Except for one consignment of 28,000 tons of wheat from the United States under the 416 B food aid program, all wheat imports in CY 2005 were from other origins, with Canada and Argentina emerging as major suppliers.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
New Delhi [IN1]
[CE]

Table of Contents

SECTION I - SITUATION & OUTLOOK.....	3
RICE	3
Production Situation and Outlook.....	3
Consumption	3
Trade.....	3
Marketing.....	3
WHEAT	4
Production.....	4
Consumption	4
Trade and Competition.....	4
SECTION II - STATISTICAL TABLES	5
Table 1: Commodity, Rice, Milled, PSD.....	5
Table 2: Commodity, Rice, Import Trade Matrix	6
Table 3: Commodity, Wheat, PSD	7
Table 4: Commodity, Wheat, Import Trade Matrix	8
Table 5: Wheat Imports by Month, CY 2004 and CY 2005 by Country of Origin	9

SECTION I - SITUATION & OUTLOOK

RICE

Production Situation and Outlook

Sri Lanka's MY 2006/07 rice production is forecast at 2.2 million tons (milled basis), assuming favorable weather conditions and the continuation of the ceasefire agreement between the Sri Lankan government and the Liberation Tigers of Tamil Elam (LTTE), a militant group active in major rice growing regions of the northeast. The MY 2005/06 rice production is estimated at 2.1 million tons, which includes a *yala* crop (harvested in the fall of 2005) of around 800,000 tons, and a *maha* crop, currently being harvested, of 1.3 million tons.

Rice is the dietary staple in Sri Lanka, and is cultivated in almost all parts of the island. The *maha* season crop (approximately 63% of total production) is planted in the fall and harvested in the spring, while the *yala* crop (37% of production) is planted in the summer and harvested in the fall. Most local varieties are of mediocre quality, for which there is no or very little export demand. Sri Lanka's rice production is closely tied to its domestic politics, with the government providing substantial subsidies on certain types of fertilizers, resulting in unbalanced fertilizer use. Combined with poor agricultural practices and a high cost of production (mainly labor), this results in lower economic returns. Water management has always been a challenge, particularly in the 'dry zone' in the east, southeast, and northern parts of the country. Of the 870,000 hectares of total rice area, only 42 percent has assured irrigation. Conventional rice farming results in a relatively low average yield of 3.5 to 3.8 tons per hectare (rough basis), although the potential yield is much higher. The System of Rice Intensification (SRI) trials have shown higher yields vis-à-vis conventional cultivation systems, but, considering practical limitations, SRI farming has been recommended only for small-scale rice farmers as a sustainable system.

Consumption

Rice remains the major calorie source (45 percent) and protein source (40 percent) for Sri Lankans. Annual per capita consumption is around 100 kilograms, and is influenced by the price of rice vis-à-vis wheat flour. In recent years, the government has promoted increased consumption of rice to reduce dependence on imported wheat. Retail rice prices ranged from Rs. 30 (30 cents) per kilogram to Rs. 50 (50 cents) per kilogram in 2005.

Trade

Rice imports in CY 2006 are forecast at around 60,000 tons, compared with 50,000 tons in CY 2005. The GSL increased the import tariff on rice to SL Rs. 20 (\$0.20) per kilogram from Rs. 9 per kilogram, effective January 31, 2006, due to a bumper paddy harvest forecast for the current *maha* season. An import duty hike during the major harvesting season is an annual feature meant to protect domestic farm prices. However, farmers seldom receive a reasonable price for their crop due to the ineffective price support operation by the government, infrastructure and credit bottlenecks, and manipulations by private traders. Sri Lanka imports rice mainly from India and Pakistan, and smaller volumes from Australia and Thailand. In CY 2005, Sri Lanka imported 25 tons of rice from the United States.

Marketing

The government has recently established the Sri Lanka Agriculture Produce Marketing Authority, under the Ministry of Trade, Commerce, and Marketing Development, to oversee

paddy purchases from farmers. The Treasury plans to release Rs. 2 billion (\$20 million) this year to buy paddy at the support price of Rs. 17.50 (\$0.175) per kilogram, although effective implementation of the price support program is uncertain. Paddy purchased by the government is stored in government warehouses and released regularly in an attempt to keep retail prices under control.

WHEAT

Production

There is no wheat cultivation in Sri Lanka. The country's entire wheat needs are met through imports.

Consumption

Wheat consumption has seen a steady increase over the past two decades, due mainly to the emergence of wheat-based food as a convenient and cheaper alternative to rice. A rapid growth in the fast food industry, the increasing working population, and the high cost of vegetables and meat, which are traditional side-dishes to rice-based meals, have supported higher wheat consumption. Average monthly consumption of wheat flour is estimated at 3.3 kilograms per household, and consumption of bread at 10.2 kilograms. Although the GSL is attempting to discourage wheat consumption while promoting rice consumption, a wheat-based diet has become entrenched in the lifestyle of the average consumer, and no major change in consumption is anticipated.

Sri Lanka's flour requirements are almost entirely supplied by Prima (Ceylon) Ltd, the country's sole private flourmill. A second flourmill (a joint venture between a Sri Lankan company and a UAE-based investor), in the vicinity of the Colombo port, is scheduled to be commissioned in 2007. In recent years, the Cooperative Wholesale Establishment (CWE), a government parastatal, and private traders have been importing wheat flour duty free. However, effective February 1, 2006, the GSL imposed a 15 percent or Rs. 12.50 (\$0.125) per kg (whichever is higher) import duty on private flour imports in order to discourage imports, which is contrary to the earlier policy of encouraging flour imports through zero tariffs and other incentives.

The absence of a predictable and consistent government policy has resulted in uncertain market conditions, with consumers and traders bearing the negative effects. Although the GSL withdrew a subsidy paid to the Prima mill, effective March 01, 2005, the mill is not free to determine its own flour price, which is controlled by the government. Rising wheat costs and government price controls on flour have compelled Prima to cut costs by blending low quality cheap wheat with high quality Australian and Canadian wheat, which has negatively impacted the quality of flour.

Trade and Competition

CY 2006 wheat imports are expected to be around one million tons. High US wheat prices vis-à-vis other suppliers, and Prima's core focus on price and profit margin rather than on quality, continue to limit wheat imports from the United States. CY 2005 wheat imports were 956,000 tons, mostly from Canada, Argentina, Australia, and India, with no commercial imports from the United States. However, the United States supplied 28,000 tons of wheat under a food aid program.

SECTION II - STATISTICAL TABLES

Table 1: Commodity, Rice, Milled, PSD

PSD Table							
Country	Sri Lanka						
Commodity	Rice, Milled				(1000 HA) (1000 MT)		
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		10/2004		10/2005		10/2006	MM/YYYY
Area Harvested	789	789	800	800	0	800	(1000 HA)
Beginning Stocks	10	10	60	60	54	60	(1000 MT)
Milled Production	1974	1974	2244	2100	0	2200	(1000 MT)
Rough Production	2903	2903	3300	3088	0	3235	(1000 MT)
MILLING RATE (.9999)	6800	6800	6800	6800	0	6800	(1000 MT)
TOTAL Imports	215	215	50	50	0	60	(1000 MT)
Jan-Dec Imports	50	150	100	50	0	60	(1000 MT)
Jan-Dec Import U.S.	0	0	0	0	0	0	(1000 MT)
TOTAL SUPPLY	2199	2199	2354	2210	54	2320	(1000 MT)
TOTAL Exports	0	0	0	0	0	0	(1000 MT)
Jan-Dec Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Dom. Consumption	2139	2139	2300	2150	0	2200	(1000 MT)
Ending Stocks	60	60	54	60	0	120	(1000 MT)
TOTAL DISTRIBUTION	2199	2199	2354	2210	0	2320	(1000 MT)

Table 2: Commodity, Rice, Import Trade Matrix

Import Trade Matrix			
Country	Sri Lanka		
Commodity	Rice, Milled		
Time Period	Jan-Dec	Units:	Metric Ton
Imports for:	2004		2005
U.S.	0	U.S.	
Others		Others	
India	145867	India	35365
Pakistan	55833	Pakistan	14612
Japan	6122		
Italy	5353		
Total for Others	213175		49977
Others not Listed	1825		23
Grand Total	215000		50000

Table 3: Commodity, Wheat, PSD

PSD Table							
Country	Sri Lanka						
Commodity	Wheat				(1000 HA) (1000 MT)		
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2004		01/2005		01/2006	MM/YYYY
Area Harvested	0	0	0	0	0	0	(1000 HA)
Beginning Stocks	100	100	135	100	95	100	(1000 MT)
Production	0	0	0	0	0	0	(1000 MT)
TOTAL Mkt. Yr. Imports	1100	945	1000	956	0	1000	(1000 MT)
Jul-Jun Imports	1163	959	1000	950	0	0	(1000 MT)
Jul-Jun Import U.S.	0	0	0	28	0	0	(1000 MT)
TOTAL SUPPLY	1200	1045	1135	1056	95	1100	(1000 MT)
TOTAL Mkt. Yr. Exports	75	0	50	0	0	0	(1000 MT)
Jul-Jun Exports	38	0	75	0	0	0	(1000 MT)
Feed Dom. Consumption	0	0	0	0	0	0	(1000 MT)
TOTAL Dom. Consumption	990	945	990	956	0	1000	(1000 MT)
Ending Stocks	135	100	95	100	0	100	(1000 MT)
TOTAL DISTRIBUTION	1200	1045	1135	1056	0	1100	(1000 MT)

Table 4: Commodity, Wheat, Import Trade Matrix

Import Trade Matrix			
Country	Sri Lanka		
Commodity	Wheat		
Time Period	Jan-Dec	Units:	Metric Ton
Imports for:	2004		2005
U.S.	0	U.S.	28,000
Others		Others	
Australia	273,818	Canada	511,029
Argentina	229,543	Argentina	340,488
India	197,917	Australia	43,954
Canada	99,973	India	32,644
Total for Others	801251		928115
Others not Listed	143,749		
Grand Total	945000		956115

**Table 5: Wheat Imports by Month, CY 2004 and CY 2005 by Country of Origin
(metric tons)**

	2004			2005		
	US	Non-US 1/	Total	US	Non-US 1/	Total
January	0	78,316	78,316	0	70,926	70,926
February	0	70,367	70,367	0	66,244	66,244
March	0	127,855	127,855	0	136,549	136,549
April	0	69,021	69,021	0	83,980	83,980
May	0	24,529	24,529	0	69,475	69,475
June	0	83,270	83,270	0	63,498	63,498
July	0	71,320	71,320	0	132,109	132,109
August	0	128,305	128,305	0	70	70
September	0	1,524	1,524	0	108,382	108,382
October	0	191,375	191,375	0	67,560	67,560
November	0	32,382	32,382	0	178	178
December	0	67,023	67,023	28,000	129,167	157,167
Total	0	945,287	945,287	28,000	928,138	956,138

1/ Non-US includes India, Australia, Argentina, Canada, etc.